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TAGS: [ECON](#) [ETRD](#) [PTER](#) [PINR](#) [PREL](#) [KPAL](#) [KWBG](#) [EG](#) [IS](#) [XF](#)
SUBJECT: SINAI SMUGGLING INCENTIVES INCREASE UNDER STIFLED
TRADE CONDITIONS

REF: A. CAIRO 1737
[1](#)B. CAIRO 1738
[1](#)C. CAIRO 2836
[1](#)D. CAIRO 3385

Classified by William Stewart, Minister-Counselor for
Economic and Political Affairs, for reason 1.4 (d).

[1](#)1. (C) SUMMARY: Pent-up economic pressure for trade with the
Palestinians is fueling smuggling between North Sinai and
Gaza, residents and officials in the governorate told us on a
visit to El-Arish and Sheikh Zuwayed Nov. 28-29. END SUMMARY.

Hard Times, Unless You're A Smuggler

[1](#)2. (C) During two days of discussions with businessmen,
community leaders and government officials including North
Sinai Governor Ahmed Abdel Hamid and Bedouin parliamentarian
Fayez Aboul Harb, we heard that closure of the Rafah border
for pedestrian traffic and constraints on other trade with
Gaza have created new black-market opportunities for border
residents.

[1](#)3. (C) In the past, "only a few" clans controlled virtually
all of the tunneling between Egypt and Gaza, said Aboul Harb,
whose parliamentary district, centered in the town of Shaykh
Zuwayed, includes Rafah. Since the Hamas coup in Gaza,
however, pent-up demand and spiraling profit margins have
enticed a broader swath of residents to dig tunnels. "You
can buy a pack (of cigarettes) in El-Arish for 5 to 7 pounds
and sell it in Gaza for 25," Harb said.

[1](#)4. (SBU) The slim profit margins on other goods appear not
to justify the cost and risks of smuggling through tunnels,
however. Osama Kassas, chairman of the North Sinai
Businessmen's Association (NSBA), said that one small-scale
el-Arish shoe manufacturer who had exported his goods to Gaza
earlier this year through Rafah (in violation of
Israeli-Palestinian-Egyptian customs protocols) now sells to
Kuwait and Libya.

[1](#)5. (C) The lack of economic opportunity in North Sinai has
led community leaders to fear that disaffected youth will be
more prone to extremism (ref A). Aboul Harb estimated the
unemployment rate in his border district at 15 to 20 percent.
"Our young people are leaving in droves, many for Cairo, but
some abroad," he said. The GoE approach to solving the tunnel
problem has increased tension, Aboul Harb said: They are too
harsh against the people who live near the border, which only
causes hard feelings and "political problems."

"Heyday" of Israeli Occupation

¶16. (C) Several contacts contrasted the current constraints with relatively open trade in past years. Abel Hamid, a former army general who has been governor of North Sinai since 1999, noted that before the second Palestinian intifada, dozens of tourist buses heading from Israel to Cairo passed through el-Arish every day, contributing significantly to the local economy. Aboul Harb said that when the Rafah border crossing was open in past years, "250 trucks a day" would cross, laden with consumer goods. Even after commercial traffic was restricted between Gaza and North Sinai, Palestinian traders carried Egyptian goods into Gaza in bags they claimed as personal luggage (refs B and C).

¶17. (U) The benefits of trade with Israel during the Israeli occupation in the 1970s are still evident in the 30-year-old Mercedes Benz cars that are common throughout North Sinai. Aboul Harb explained that they all dated to the "heyday" of the Israeli occupation, and had been kept running all these years to be used mostly as long-range taxis.

¶18. (SBU) Aboul Harb also noted with a smirk that much of the infrastructure in Sheikh Zuwayed was provided by Israel, not Egypt, to service a former settlement in the area during the Israeli occupation of Sinai. During this and previous visits, North Sinai residents -- who often identify more with the Arabian peninsula than the Nile Valley -- boasted to us that they learned Hebrew in high school under the Israeli occupation, and they made favorable comparisons to life under the Israelis compared to life under the Egyptians.

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Signs of Economic Life

¶19. (SBU) Despite the constraints on trade with Gaza -- or perhaps because of an economic boost to the region from lucrative smuggling -- signs of economic life were evident el-Arish and Sheikh Zuwayed. Sinai University, a private university built by Cairo businessman and longtime Sinai investor Hassan Rateb, boasts gleaming new buildings and students from across the Arab world pecking away on networked laptops and studying dentistry, engineering and business.

¶10. (U) Further down the economic ladder, the NSBA and the Fawakhria Association for Community Development are financing the investments of micro-entrepreneurs engaged in small-scale manufacturing, agriculture, and traditional handicrafts. With USAID financing, the NSBA has opened a new branch in Sheikh Zuwayed to offer group-lending and business loans to micro-enterprises along the border. A separate USAID grant to Aid to Artisans will provide assistance in production and marketing for handicrafts. The NSBA plans to further expand next year with a branch at the central Sinai crossroads town of el-Nakhl, planned in coordination with a new \$10-million USAID program for community development in Central Sinai.

¶11. (U) However, the area continues to face significant challenges because of the climate, political obstacles and longtime underdevelopment. The central part of the peninsula in particular continues to lack basic resources such as water and transportation services, according to a preliminary USAID assessment conducted in November. Abdul Hamid said that rain shortfalls had nearly halved the amount of farmland cultivated in Rafah and Sheikh Zuwayed this year. He placed some hope on an increase in tourism, noting the 276 species of birds that migrate through the Zaraniq nature preserve each year, but acknowledged that border security concerns, stiff winter Mediterranean breezes, beach erosion and jellyfish have encouraged foreign tourists to vacation in the beach resorts of South Sinai rather than in the North.

Peaceful Palestinians

¶12. (C) Egyptian press have carried reports in recent weeks of tension with Palestinians living in the el-Arish airport as they wait for a chance to return to Gaza. However, el-Arish contacts all reported no trouble with stranded Palestinians. Wael al-Mahfouz Zidan, manager of the new NSBA branch in Sheikh Zuwayed, said that Cairo press reports of problems were overblown. Likewise Aboul Harb said that the tension between Palestinians and the local inhabitants of his district (mostly tribal Bedouins) was "under control" and there had not been any problems lately. During our visit, we were accompanied by the usual security escort, but observed no extra security forces or precautions in el-Arish or near the border.

¶13. (C) However, problems at Rafah continue. Border officials told us today that 700 Palestinians forcibly entered the Rafah border crossing terminal from Gaza on December 3. The group consisted primarily of Hajj pilgrims and people over age 60 and in need of medical care; violence was minimal (ref D).
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